## THE FOREIGN TRADE BALANCE OF THE UNITED STATES—DISCUSSION

B. M. Anderson, Jr.—With very much of Professor Williams' admirable paper I am in accord. The time limit compels me to confine myself chiefly to the points on which I dissent. The chief differences between Professor Williams' figures presented in his paper and those which I presented in the *Chase Economic Bulletin* of October 5, to which he has referred, grow out of differences in methods and assumptions rather than differences in sources of information. He and I have checked up roughly, and find ourselves in general agreement regarding the main items: indeed, I have borrowed certain of my figures from his earlier balance sheet, and he has taken one or two from mine.

The chief difference in assumptions hinges on one point: he affirms, and I deny, that our balance with the world as a whole is the same as our balance with Europe. His assumption is that Europe's current debts to us are offset by our current debts to the non-European world—that Asia and South America, etc., have been sending us goods to pay for our shipments to Europe. I deny this, maintaining that Europe is in debt on current items to the rest of the non-European world also and that, by and large, she has no current net credits in the outside world against which she could draw. Professor Williams maintains, and I deny, that the old triangular arrangements still hold. He maintains that the triangle of credit still continues. I maintain that the breaking of the triangle in the shipment of goods has also broken the triangle in the transfer of credits. In the shipment of goods, the triangle has been broken by the war. The non-European world has sent an excess of goods to us; we have sent an excess of goods to Europe; but the third side of the triangle, the shipment of an excess of goods from Europe to the non-European world outside of America, has dropped out.

Professor Williams states that there is no difference in theory between us on this point, but that the question is one of fact merely and that the burden of proof is upon me.

I do not know why he should say this. I think that the facts are so notorious that I may ask the court to take "judicial notice" of them. Europe has been at war. The war has consumed the energies of European neutrals and belligerents alike. All of them have bought on credit all they could from the outside world, and have sold very little to the outside world, for six years.

Professor Williams calls attention to the great excess of goods which has come to us from the non-European world since the first of January, 1919, and asks how we have paid for it unless by drawing on our European credits. I think this question can be answered very simply. We have paid for it with gold, with silver, and with Federal Reserve notes chiefly, though we have also piled up some debts in the non-European world, represented in part by bank balances which outside countries hold in our banks. Our excess shipments of gold and silver alone fill most of the gap, as the following table reveals:

U. S. TRADE BALANCE WITH COUNTRIES OUTSIDE OF EUROPE—FROM JAN. 1, 1919
GOLD AND SILVER SHIPMENTS INCLUDED
(000,000 omitted)

| | EXPORTS | | IMPORTS | | BALANCE | |
|---|---|---|---|---|---|---|
| Commodities | | | | | | |
| 1919 | 2,734 | | 3,154 | | —420 | |
| 1920 (11 mos.) | 3,429 | | 3,853 | | —424 | |
| Total | | 6,163 | | 7,007 | | —844 Unfavorable |
| Gold | | | | | | |
| 1919 | 329 | | 72 | | 257 | |
| 1920 (To 12/20) | 321 | | 97 | | 224 | |
| Total | | 650 | | 169 | | 481 Favorable |
| Silver | | | | | | |
| 1919 | 212 | | 89 | | 123 | |
| 1920 (To 12/20) | 106 | | 86 | | 20 | |
| Total | | 318 | | 175 | | 143 Favorable |
| Grand Total | | 7,131 | | 7,351 | | —220 Unfavorable Balance |

Of the $844,000,000 adverse commodity balance of trade with the non-European world from January 1, 1919, to December 1, 1920, only $220,000,000 remain when our balance on gold and silver shipments is deducted. This $220,000,000 is reduced further by not less than $103,000,000 by shipments of Federal Reserve notes from the United States to Cuba between January 1, 1920, and October 20, 1920, as indicated in the *Federal Reserve Bulletin* of November, 1920, page 1164. (My information is that this article was written about October 20). More recent information from banking circles in New York would indicate that still further large shipments of Federal Reserve notes have gone to Cuba since the *Federal Reserve Bulletin* article was written, while a good deal went in 1919. Some millions of Federal Reserve notes also have gone to some other countries. Federal Reserve notes circulate more or less as currency in some of the northern portions of South America, in Santo Domingo and Hayti, and in some other places. It appears, also, that the amount of American currency held in the Argentine and in Brazil has increased by possibly a million dollars in the period that we are discussing.

Closer analysis still will show that, when we leave Cuba out of account, we have more than paid for our excess of imports to the non-European world with actual gold and silver. Our adverse balance with Cuba for the twenty-three months ending December 1 was $382,000,000. This, deducted from the $844,000,000 adverse balance with the non-European world as a whole, reduces our adverse balance with the rest of the world to $462,000,000. Our favorable gold and silver balance with these countries, however, was $624,000,000, so that we have sent to the non-European world, excluding Cuba, $122,000,000 more in gold and silver during this period than we needed to send them to pay for our balance in goods for the same period. (Our gold

and silver dealings with Cuba during this period were negligible.) Leaving out Cuba, therefore, there is no balance to account for. I do not know what basis Professor Williams could find for maintaining that Cuba has been paying Europe's debts to us by shipments of sugar here. Cuba was not indebted to Europe for goods during this period, and I have found no reason to believe that Cuba has extended any appreciable amount of credit to Europe to be used in making payments here.

Close contact for the past two years with the actual trading in foreign exchange, moreover, makes me question very many of Professor Williams' contentions. We have not paid for goods in South America with sterling on a large scale; probably three fourths of our dealings with South American countries in the period under discussion has been in terms of dollars rather than of sterling.

We have not bought rupees in London on a great scale for paying rupee obligations in India. It has been hard to get rupees in London; occasionally one could get "Council Bills" there, but, in general, it has been far easier to buy rupees in New York than it has in London. Two or three institutions in New York have been selling rupees on a much larger scale than London has. We have even been able to force the use of dollars on Australia and South Africa in increasing measure, particularly in the last six months. Since the drastic decline in rupees, there has been an increased use of sterling for payments in India, but the magnitudes have not been very great. Our dealings with Europe, outside of Great Britain, have been very largely on the dollar basis, and with Britain herself the use of dollars has greatly increased. Our dealings with Egypt have been in large measure on the dollar basis; and with Asia, excluding India and Japan, there has been little sterling used, and a very large amount of dollars has been used, for the past four years. There has been little use of sterling in payments to Japan: the yen has been the chief basis for transactions there. On the whole, non-European countries have been sellers of sterling to us, rather than buyers of sterling from us. The New York exchange market has been a better market in which to sell sterling than the market in Buenos Ayres or in several other non-European centers where I have been able to feel the currents of exchange trading.

These are, in part, impressions, rather than statements which I make with full knowledge of the market. I have, however, checked them by talking with several men who deal in foreign exchange. There is not unanimity about all these points. Different banks have partially different experiences. But I think these statements are approximately correct.

There has, then, not been a restoration of normal credit relations, and London is not occupying its normal position as the intermediary in world commerce. There has, rather, been the effort on the part of London to resume its normal place under abnormal conditions, with the result of a terrible expansion of the discounts and advances of British banks (amounting to 41 per cent from June 30, 1919, to June 30, 1920), and an increasingly difficult position for London. I think, on the whole, that, if all these current items could be checked up, Europe's current debt to us would be increased rather than diminished by taking into account (1) Europe's relations with the non-European world and (2) our relations with the non-European world. I am told that banks in the Far East have transferred balances of $200,000,000 net from London to the United States since the

armistice, increasing, of course, the pressure on sterling in the process. Gold has at times gone out of the United States on British account.

In general, there is no reason for supposing that any non-European country, except the United States, has been in the position to extend larger credits to Europe in proportion to its trade relations than have the United States. It is highly probable that Europe has drawn on us to pay her debts to the non-European world to a greater extent that she has drawn on the non-European world to pay her debts to us.

Professor Williams shifts the issue when he says that I ought to try to work out our relations with the European belligerents alone. This might be interesting for some purposes, but it would not reveal our *balance with Europe,* which is what my figures are designed to do.

I took account of the credits which neutrals had with us on January 1, 1919. I knew that Scandinavian countries and some other neutrals had large balances in New York banks. I credited all of that to Europe. All Europe has been tied together financially. Spain's investments in marks are very heavy. This is true also of Holland, the Scandinavian countries, Belgium, Britain, and France. Belgium and France are so closely tied together financially that Belgium francs and French francs move up and down together, despite the fact that Belgium's position, both financially and industrially, is much better than that of France. All the European exchanges, except Swiss exchange, are at a heavy discount in this country. Denmark and Holland have been buying goods here to ship to Germany, and the financing of imports by the Continental neutrals has been largely through London in much the same way that the financing of our exports to the Continental belligerents has been. Sterling, despite its decline in New York, has gained greatly, relatively to the European neutral exchanges, in the past 18 months.

I regard Professor Williams' first point, then, as invalid, and his second point as irrelevant.

The first published statement, so far as I know, regarding the peculiar position of London and of sterling exchange was contained in *Commerce Monthly* (a journal with which I was at the time associated) of January, 1920 (issued December 25, 1919), page 19. The statement follows: "The severe decline of sterling exchange probably reflects not simply the adverse trade position of the United Kingdom itself, but, in addition, the pressure of the burden, which London is carrying, of a good portion of the entire floating indebtedness of the other European countries to the United States. Our exports to the several countries of Europe in good part have been made either against sterling bills or against other currencies which have been converted, by sale, into sterling. While this is the natural consequence of London's position as the most important market for international exchange, it has accentuated the fall of sterling in our markets."

Professor Williams agrees with this view, but suggests that I may have exaggerated in my article in the *Chase Economic Bulletin* the extent of it, because much of our huge trade balance is directly with England. This is, however, a point which I had myself made. Part of London's burden grows out of the fact that she has been buying from us for cash, but selling to the Continent on time. Professor Williams thinks that the extent to which she has bought from us to sell to the Continent cannot be as great as I would hold because British figures for reëxports are not exceedingly large. I

should maintain that the figures for reëxports do not tell the story. Britain has bought raw materials from us for cash, which she has worked up and sent to the Continent. These do not appear as reëxports. Moreover, she has been able to send British products of various kinds to the Continent because of her ability to get similar products or substitutes from us.

I am not impressed by the figures which Professor Williams refers to, designed to show that our exports represent merely increase in prices and not in physical quantities. Statistics have been offered reducing exports to a common physical unit, the pound avoirdupois, which indicate this. Such figures fail to take account, however, of the great change in the character of our exports. We have sent out an increasing proportion of finished and even highly finished products and a greatly reduced proportion of bulky products of low value and great weight. This was especially true during the war, when shipping space had to be economized and only the most highly concentrated forms of products could find ship-room.

Two pounds of alcohol are evaporated in making a pound of smokeless powder. In economic essence the alcohol is exported in the smokeless powder—but it doesn't get into the statistics of pounds of goods exported. We need a subtler physical unit than the pound avoirdupois before such a computation is of value. If it could be handled, a unit based on a day's labor would be better. The significant thing is the drain which the export balance has made on our labor and resources. Many items have not got into the export figures. Thus exports had to be rushed out at high speed during the war—an extra economic service, not easily subjected to statistical measurement, but one which involved much labor and much friction and waste. The figures for trinitrotoluol exported—themselves very incomplete because so much of this went in Government vessels—do not include our losses through explosions at the Tennessee Copper Company's plant and elsewhere. The ships we built are not included nor our war activities in general.

The same criticism applies to figures based on a selected set of exports taken at 1913 prices, and taken as representative of exports in general. Such figures have been offered as showing that the physical exports have increased only moderately. These figures again, however, make no allowance for the changed character of our exports. The elements that enter into them are all elements which were important enough to be separately listed in the figures of 1913 and many of the most important wartime exports are not entered at all. Moreover, no change is made in the weighting of these elements as the years go on. The 1913 weights are continued.

There is not time for full discussion of the Quantity Theory or for the strange view that high prices are adequately explained by the volume of deposits and money in circulation and have no reference to the export and import situation. I do not see how anybody can find confirmation of the Quantity Theory in the events of the last eleven months. Prices have dropped something like 40 per cent on Bradstreet's Index Number from the first of February, 1920, to the first of January, 1921, despite the fact that the volume of money in circulation and the volume of deposits subject to check have increased in that period. On the other hand, while the whole of this price change is not to be explained simply by reference to the export and import situation, it is very clear that that has been an enormous factor. During the latter part of 1919 and through September of 1920 there came a great increase in our imports from non-European countries of raw

materials. Our export balance, which had been $625,000,000 in June, 1919, dropped to about one tenth that, namely, $65,000,000 in August of 1920. The imports of raw materials broke the prices of raw materials in many cases far below prewar figures. The collapse had gone so far by October, 1920, that such imports were drastically checked. Meanwhile, exports of farm products, notably meats, were much reduced, and their prices broke heavily. The collapse in these markets cut under the buying power of large elements of the population, and the whole price fabric crumbled.

Professor Williams and I are agreed that, whether the exact amount of Europe's unfunded debt to private creditors in this country is in the neighborhood of $3,000,000,000 or in the neighborhood of $4,000,000,000, it is, in any case, too large. We are agreed that investors' money, rather than bank money or the working capital of business enterprises, must be called upon to finance future export balances. We both agree, I take it, that the balance of trade must be greatly reduced in the near future whether it disappears or not.

I am not sure that we are in full agreement as to the motives which should govern our efforts to get investors' money for continuing an export balance with Europe. In my view, the critical problem is Europe's need and not our own need for markets. By proper readjustment in our industries and our prices we can consume at home as much as we produce. But we must rehabilitate Europe. This means that we must find money—investors' money—to get over to Europe the goods that she really needs. But merely finding money is not enough. Europe has had many billions from us since the armistice, and they have done her very little good. She has taken an appalling proportion of finished manufactures ready for consumption which she ought to have produced herself. She has taken an appallingly small proportion of her exports from us in the form of raw materials which she could work up. We should accompany the money by control over Europe's buying in such a way as to get her the things that will really help her.

Raleigh S. Rife.—Professor Williams' paper is a very interesting and suggestive study of the trade balance of the United States since the armistice. Professor Williams reaches the conclusion that the trade balance has been unsoundly financed to the extent that there are outstanding short-term unfunded banking credits to an amount approximately of $3,000,000,000. While Mr. Anderson is in practical agreement with Professor Williams in regard to the amount of unfunded credit outstanding, I wish to state at the outset that I am not in agreement with the position taken.

Since the armistice the banks of the country, while desirous of serving the needs of the business community, have not encouraged their clients in indiscriminate extension of credit to European buyers. Many instances might be cited during the last 18 months where exporters have been discouraged against taking in payment of goods short-time Treasury bills of various European governments. The banks have been guided by the principle that the credit of any foreign government would be materially impaired by indiscriminate issuance of Treasury bills. The banks have, of course, followed their normal procedure of issuing 90 to 120 day acceptances and short-term credits of this character, to be covered, of course, by payments at the time of maturity. While there are instances of unusual extension of credit on the part of our business men to foreign purchasers, I do not be-

lieve as a matter of principle that they have been overzealous in such extensions of credit.

Our statistical information is not sufficiently complete to enable an approximation of all the invisible items that enter into the payment of the balance of trade of our country. It is quite generally known that the American public has been a heavy purchaser of foreign exchange because of the speculative opportunities for profits. Further, Americans have been heavy purchasers of internal bonds of many European countries. A considerable amount of foreign securities has been transferred to the American market. In this instance, reference is made to Japanese sterling bonds, Argentine sterling bonds, etc. In addition, the investment of American capital in private channels in many countries must be taken into account. All of these are invisible items in our balance of payments which it is very difficult to measure statistically, and frankly I do not believe that anyone knows definitely enough the status of these invisible items to charge that our credit structure has been made top-heavy on account of unfunded short-term credits.

In estimating our balance of payments, I prefer not to limit my figures to the period beginning with the armistice because of the difficulty of knowing to what extent export shipments following the armistice were paid for by credits extended by the United States Government before the date of the armistice. A much safer policy in handling the figures is to go back to July 1, 1914, and bring the total figures up to October 30, 1920. Our export figures show that the total excess of merchandise exported over merchandise imported was $17,675,000,000, to which should be added the net exportation of silver of $458,000,000, bringing the total to $18,133,000,000. The excess of imports of gold over exports amounted to $779,000,000. Subtracting this figure from the total of export movements shows a balance of trade of $17,354,000,000 in favor of the United States for the period from July 1, 1914, to October 30, 1920.

In turning to the credit operations with which this huge export balance was paid, the following figures are indicative of the situation. The United States Government extended credits to allied and associated governments to a total of $9,580,000,000. There is outstanding in the American market approximately $2,500,000,000 of loans and stocks which have been offered to the public and have been purchased by private investors. It is generally understood that there have been important sales by foreigners of American securities which they formerly held. Various estimates have been made of the volume of such transactions and in this matter there are, of course, many invisible items and our statistical information is not complete enough to enable us to determine this figure with exactitude. It is generally recognized that during the year 1920, with a further fall in exchange rates, the sale of foreign held securities on the New York Stock Exchange has been more pronounced. Realizing the imperfections to be attached to an estimate of the amount of American securities purchased from foreign holders, I suggest that a reasonable figure should be about $3,000,000,000.

We now come to the discussion of the second group of invisible items, which include the purchase of internal bonds of foreign countries, the purchase of other classes of foreign securities, the private investment of American capital abroad in branch factories, in development work, etc. The writer's opinion is that $1,000,000.000 would be a fairly conservative estimate for this type of investment. His belief is further strengthened by the

estimates that have been made by Mr. Cates of Canada, Mr. Fields, formerly editor of the Montreal *Financial Times*, and himself, which, taken as a whole, show that the so-called invisible investment of American capital in Canada since the outbreak of the war, including the purchase of internal bonds and the investment of private capital, has approximated $500,000,000. Having in mind the heavy investment of American capital of this same character in sugar developments in Cuba, developments in Central America, the packing, mining, and petroleum industries in South America, the rubber industry in the Near East, as well as the investment of private capital in Europe and internal bonds of the European countries, it seems that the additional $500,000,000 would not be far from the truth. This brings the total of credit operations to a total of $16,018,000,000. The balance of $1,274,000,000 is covered in part by purchases of foreign exchange currencies and short-term banking credits.

This in itself is not a figure about which we need to be disturbed at all, and does not indicate that our foreign trade since the armistice has been unsoundly financed by the large extensions of credit on the part of banking institutions. This evidence points to the conclusion that, in so far as foreign trade financing is concerned at least, the banks as a whole have been conducted sanely and soundly during a critical period, and instead of overextending their credit in foreign transactions have been ultra-conservative in this respect. As a general proposition our banking structure has passed through a very critical period and remains in unusually sound condition.

It is well to pass from this review of the statistical information to a brief discussion of financing our export movement. There has been developed in recent months, with the drop in commodity prices and the slowing up of business, a much keener interest on the part of the public at large of the necessity of financing our exports. This is liable to lead to the discussion of hasty and unsound methods of financing. The recent discussion of the revival of the War Finance Corporation is a case in point. In theory, as well as in practice, I am opposed to the revival of such an institution and think it highly desirable to keep the government out of the financing of our trade movement as much as possible. There is only one excuse for government participation in such financing and that is from the standpoint of insurance. There are certain sections in Europe of which it is impossible today to determine their credit position so that private investors may invest their funds in the securities of these countries, and yet these countries have great need for American railway equipment, for machinery and other articles to revive and restore their economic life. For example, Roumania needs, above all, transportation facilities so that the agricultural production may be mobilized for shipment and its rich oil resources developed. It would be a great help to all that part of Europe east of the Rhine to be able to buy the needed things in America to restore its economic production. The British have pointed the way in the formation of the British Trade Corporation, which acts as a sort of insurance fund against risk, so that the cost of insurance is transferred to the government. The French Government has recently taken a little different step in guaranteeing certain credits extended by private capital. The necessity of restoring that part of Europe east of the Rhine to a normal economic production is of such importance to western industrial Europe and the United States that we cannot expect a normal resumption of business and recovery from the present depression until this

part of Europe is restored. Consequently, the question of insurance of the risk is of such vital importance to the whole economic life of the people of the United States that there might be some reasonable argument in favor of allowing the government to participate in a limited way in the insurance of the risk involved in extending credit to those parts of the world.

The disarrangement of foreign exchange and the depreciated value of the paper currencies of many countries of Europe have resulted in a revival of barter as a means of trade. The old Indian methods of trade have thus been revived in trading with many of the countries east of the Rhine. Dr. Visserung, of the Bank of Netherlands, has made a rather constructive idea to keep in touch with these markets. His suggestion is the formation of a large barter finance corporation. For illustration, if such a corporation was formed in the United States, it would represent in its membership a great number of American producers. American goods would be exchanged for products of those countries and these products in turn would be sold in whatever world market it was possible to find. It also would take in exchange for products valuable concessions and thereby lay the basis for considerable investment of private capital. We realize that this method suggested by Dr. Visserung has many practical difficulties if carried into definite operation. However, it is of particular value in that it permanently establishes some connection between the American market and these various countries.

The other point about which I wish to speak in my limited period of time is the necessity that is now confronting the country of getting American capital interested in opportunities in foreign countries. Many of these countries have great demand for capital of a private nature, which may properly be called enterprise capital. It is that type of capital that can go in and develop the resources of a country, assuming the risk of developing and receiving in turn profits. Such opportunities do not warrant an appeal to the loan investment market, but would offer sufficient inducement to American enterprise capital. The investment of enterprise capital in foreign countries implies the exportation of men to act as managers of such enterprises. No greater service can be performed today for this representative body of university teachers of economics than to impress on our young men the necessity of devoting a part or all of their time to service in foreign enterprises which are financed by American capital.